In Brief

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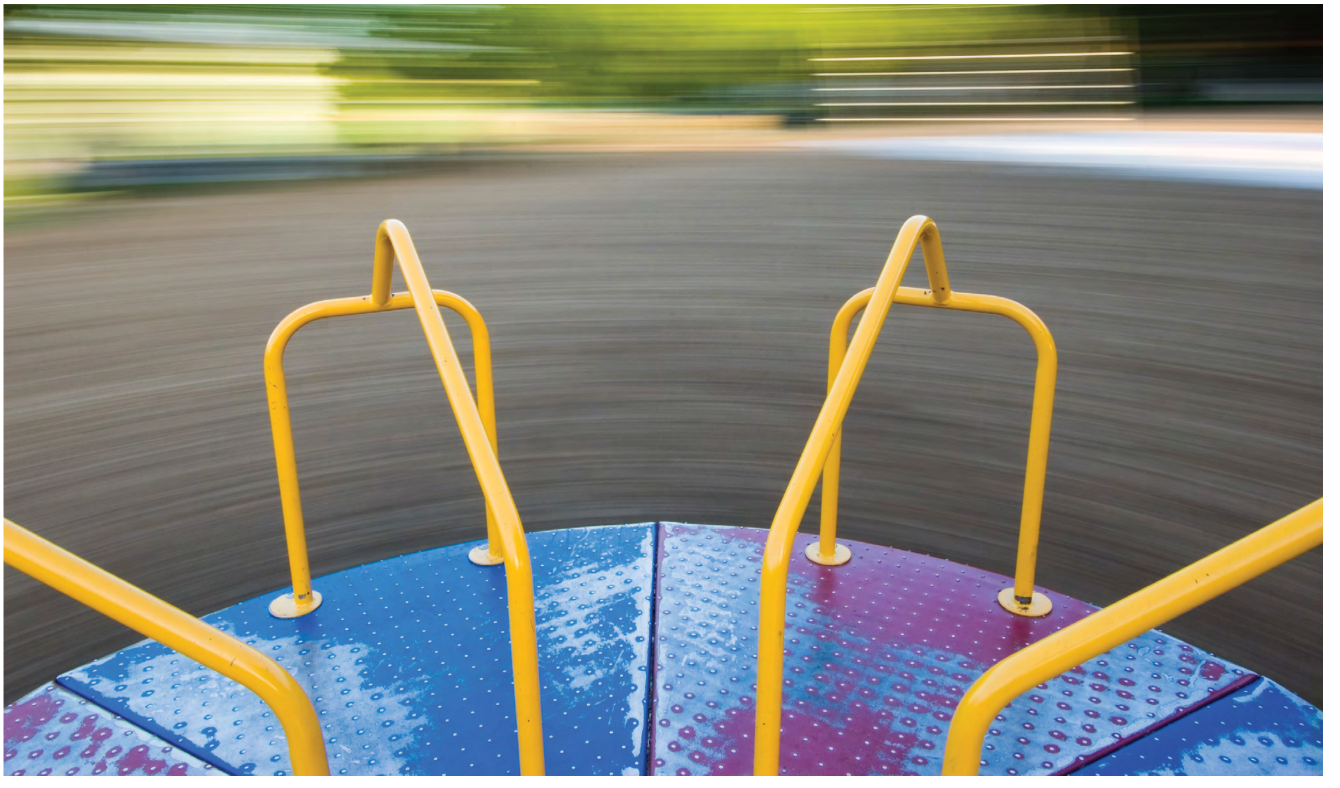

FEDERAL UPDATE

All Aboard the Federal Budget Merry Go ’Round

BY MICHAEL BELARMINO

We’re nearly at the halfway point of the year, which means for lawmakers in Washington, D.C., the guessing game is well underway as to whether or not Congress will finish appropriations work before the next federal fiscal year begins on October 1. If it’s any indicator, the FY 2022 funding bill was not signed into law until March 15, 2022, nearly six months after the start of the fiscal year. But that’s not the only harbinger of what may lie ahead. In the last 45 years under the current federal budget appropriations process, Congress has managed to finish this work on time only four times. However, for this edition of the Federal Update, we will not get too bogged down on what some argue is a broken process. Instead, we’ll provide a quick review of what the process should look like, some highlights of the current request from the Biden administration, and what the prognosis is.

A quick review of the federal budget process

Before we get into the administration’s current budget request, let’s step back and have a quick refresh on what the federal budget process should normally look like. Some of the early work by agencies begins the year before a budget is supposed to go into effect (for example, work on the FY 2023 budget for the fiscal year that begins October 1, 2022, would have begun in the latter half of 2021). At that point, agency staff are pulling together data that will help prepare their agencies’ budget requests, which are sent to and compiled by the White House Office of Management and Budget (OMB).

Once all agency requests have been compiled, the administration prepares to send the detailed budget request to Congress on or before the first Monday in February. This kicks off the congressional process, with the budget committee for each chamber proposing budget resolutions that set spending and tax revenue targets (as well as identifying any policies that may need to move through reconciliation).

They are sent to the floor for a vote and any differences between the House and Senate resolutions are resolved in conference committee. The final budget resolution will set the maximum amount of money for the appropriations committees to spend.

The appropriations committees primarily focus on "discretionary" spending, which is subject to annual approval by Congress. The budget is generally made up of three spending areas: discretionary (federal agency funding), interest on the debt, and mandatory (Social Security, Medicare, and so on). The appropriations committees divide the discretionary spending set in the budget resolution among 12 subcommittees. Each subcommittee is then responsible for deciding how to distribute their respective allocations. This is normally accomplished by holding hearings in which agency leaders testify about their requests before their subcommittee of jurisdiction. Ultimately, the product of this work finds its way back to the full Appropriations Committee, where it is voted on; then, each subcommittee proposes a bill that goes to the floor of the chamber. Any differences after each chamber completes its work are resolved in a conference committee. Once the conference committee reports out a bill, each chamber votes again. Then the president will either sign or veto the bill, all before October 1.

This of course is a very simplified summary of the budget process, and it rarely goes without a hitch (see introductory note). Additionally, we're not going to talk a lot about budget reconciliation, as it tends to get complicated and is best reserved for another day. But one other point that should be made is that even though it serves as a strong indicator of where the Administration's priorities lie, the president's budget request is simply that – a request. If either chamber in Congress is controlled by the opposing party, the request is more likely seen as dead on arrival to Capitol Hill. This serves as a nice segue into our discussion of the Biden administration's current budget request.

President Biden's FY 2022 budget request highlights

The best place to begin our highlights is at the topline number of the request, a total of $5.8 trillion in both mandatory and discretionary federal spending. Both defense and non-defense spending would see increases that are likely intended to help with negotiations between lawmakers, especially in an evenly split Senate. Of the total amount, $1.64 trillion would be in discretionary spending, which is an increase of nearly 9 percent from current spending levels. The Departments of Commerce, Veterans Affairs, and Health and Human Services saw the biggest spending bumps under the request. The request didn't include any line items from the *Build Back Better Act*, the budget reconciliation spending bill that stalled in Congress at the end of 2021. Notwithstanding that, here are some highlights from the proposal.

- **Finance.** Some of the tax reforms included in the proposal would raise the corporate tax rate to 28 percent; eliminate fossil fuel tax preferences; and increase the top marginal tax rate to 39.9 percent for taxable income of more than $400,000 for single filers ($450,000 for joint filers).
- **Agriculture and Rural Affairs.** The budget seeks additional investments in U.S. Department of Agriculture (USDA) programs to build a fair and resilient food supply chain. This request could build on funding from the *American Rescue Plan Act* that sought to address the supply chain vulnerabilities magnified during the pandemic.
- **Health.** The request would invest nearly $82 billion over five years to help foster interagency preparedness and response efforts against future pandemics. It also includes a decrease of $26 billion on the Medicaid program, based on a projection that enrollment will decrease at the end of the public health emergency.
- **Housing and Economic Development.** The request proposes $35 billion in mandatory spending for a new Housing Supply Fund that would direct resources to state and local housing finance agencies and their partners. Additionally, the budget proposes nearly $2 billion in funding for the HOME Investment Partnerships Program, which helps provide affordable housing for low-income families.
- **Energy and Environment.** The FY 2023 request calls for investments to advance environmental justice in communities across the country, focusing on disadvantaged communities. For example, the proposal includes funding to the U.S. Department of Energy for a new Low Income Home Energy Assistance Advantage pilot program to retrofit low-income homes with energy-efficient appliances.
- **Transportation.** The proposal seeks to increase funding for public transit nearly 27 percent over current enacted levels.
- **Public Safety.** The president's budget seeks to continue investment in key mitigation and resilience programs under the Federal Emergency Management Agency. Over $3 billion would be distributed among programs like the flood hazard mapping program and the Building Resilient Infrastructure in Communities program.

The hurdles that lie ahead

President Biden's budget requests reflect a rocky landscape that the administration is trying to navigate. For one, COVID-19 lingers, although we are certainly in a much better position now than at the start of the pandemic. Second, Russia's invasion

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of Ukraine and the ripple effect have had not only a national security impact but also an economic one. And speaking of the economy, inflation hasn't made it any easier for this administration and for the congressional Democrats to enact another major social spending package before the end of the year.

But the hurdles don't stop there, because the primary one facing the appropriations process is the legislative calendar itself. Congress is expected to adjourn on time for this year's August recess because it's an election year. Lawmakers want to maximize the amount of time they have on the campaign trail as the balance of power is likely to shift for the 118th Congress beginning January 2023. Therefore, Congress only has a matter of weeks to go through a process that typically takes months. The House is making an attempt at regular order in hopes of moving bills through the committee process before August, but the Senate is less clear.

Conclusion

Although the odds are stacked against a normal budget appropriations process, miracles can happen. But at this point, the most likely scenarios are (in no particular order): 1) both chambers manage to get their respective committee work done and pass the appropriations bills in September; 2) at least one chamber fails to complete work on the 12 bills, and a clean continuing resolution is passed to extend current funding levels just beyond the elections or into next year, when the new Congress is seated; 3) everything falls apart, no agreements are reached, and we face a shutdown come October 1; or 4) at least one chamber fails to complete work on the 12 bills and party leaders manage to hash out an omnibus measure.

Watching how this plays out in the coming weeks should be interesting. Lawmakers will probably avoid a shutdown because they don't want that during an election year, but it's certainly crunch time from an appropriations standpoint, and there's no telling when this merry go 'round will stop.

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